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RETIREMENT OF EMPLOYEES IN THE CLASSIFIED CIVIL SERVICE.

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U. S. Congress. Senate

Mr. STERLING, from the Committee on Civil Service and Retrenchment, submitted the following

REPORT.

[To accompany S. 1699.]

The Committee on Civil Service and Retrenchment, to whom was referred the bill (S. 1699) "A bill for the retirement of employees in the classified civil service, and for other purposes" having considered the same report thereon with certain amendments and as so amended recommend that the bill do pass.

The amendments are as follows:

(1) In line 3, on page 2, after the word "include", insert the following: "American employees of the Panama Canal above the grade of laborer, superintendents of United States National Cemeteries, and employees under the superintendent of the United States Capitol Building and Grounds, and"

(2) In line 20, on page 3, insert the word "average" between the words "employees" and "annual."

(3) In lines 2 and 3, on page 12, strike out the words "termination of pay for active" and insert in lieu thereof the words "separation from the."

(4) In line 9, on page 14, strike out the word "of" after the word "date" in said line.

This bill is identical, except as to a few changes in phraseology, with H. R. 3149, which has been reported to the House with a recommendation that the bill "as amended be passed."

The only amendment made by the House committee is that which brings American employees of the Panama Canal above the grade of laborer, and the superintendents of United States National Cemeteries, within the provisions of the bill. This amendment, as will be seen, is included in the first of the foregoing proposed amendments to the Senate bill.

Your committee is of the opinion that there is urgent need for some just and equitable civil-service retirement legislation. The main purposes to be accomplished by such legislation are:

(1) Greater efficiency and economy in the Government service; and

(2) A moderate provision for the material welfare of those who, by reason of length of service and their inability to longer render full or efficient service, are obliged to retire.

It has long been patent that, in the various administrative branches of the Government, employees have been retained long after they had, by reason of age and bodily infirmity, ceased to be efficient. The law having made no provision for their support in whole or in part during their declining years, the heads of departments and bureaus have through sympathy kept many aged employees in the nominal service of the Government and their names on the pay roll. The real work of the position, in such cases, has devolved on other and younger employees. This, of course, has resulted in loss to the Government, and it would appear that in some cases the equivalent of two salaries has been, or is, being paid for that service for which the compensation should have been but one salary. Of course, work done by those whose faculties are impaired by reason of age is not as a rule efficiently done, and the Government in this respect sustains a loss difficult to estimate.

The system is a vicious one, both from the standpoint of economy and efficiency. To the extent that the employee, drawing the regular salary which his position commands, is unable to perform fully or efficiently the work of the average person in a like position, such employee is a pensioner of the Government, and, as above intimated, the attention of your committee has been called to many cases where the service rendered by the employee was so slight that he is practically a pensioner to the full amount of his salary.

While such employees are thus pensioners, the system which permits them to be such is not a pension system. The compensation received over and above the value of the service rendered is not measured or certain; the employee, meanwhile, is harassed by the thought that he is subject to dismissal, or with the fear that the sympathy which has so far retained him in the service may yield to the pressure in behalf of other applicants who, by reason of a civil-service examination or otherwise, are deemed eligible.

The system is unjust to the head of a department or bureau charged with the responsibility of the efficient and economic management of the business of such department or bureau. Few would say that the human sympathy which retains the aged employee after his usefulness is gone in whole or in part is not without commendation, and yet the public demands, and rightfully, that the public business be conducted both economically and efficiently. Again and again have heads of departments recommended that a law be enacted which would require retirement at a given age and, at the same time, make such just provision for the material needs of the retired employee as will secure him against actual want.

Any system which permits the public business to be carried on without fulfilling this requirement is unjust to the public.

Further, it is unjust to the employee. He has given the best part of his life to the service of the Government and, in most cases, on a salary out of which he is unable to provide anything like a compe-

tency for his old age. Meanwhile, the Government has been the beneficiary of his continuous service during all his capable years, and, as a matter of simple justice and humanity, should contribute not all that may be required, but something, to his support when he can no longer serve.

In corroboration of the foregoing, your committee calls attention to the following from the report of the Civil Service Commission for the year 1917, found at page 15 of the hearings:

The increased demands upon the personnel of the civil service by the war have given emphasis to the need of a retirement system. It is too costly to continue the aged and infirm in positions requiring alertness and vigor, especially where they have supervision of other employees, and a retirement system is possible which would be alike in the interests of the Government and of the worker. While inefficiency is a just cause for removal, appointing officers naturally hesitate to dismiss old employees who have become incapacitated after rendering long and efficient service, and a virtual pension system thus exists * * *.

A retirement system would give stability to the service, create an inducement to capable men to continue in it, contribute to improved administrative methods, and make possible a standardization of salaries and other needed reforms. The benefits to the service from an equitable retirement system would justify a direct contribution from the Public Treasury to create an annuity for superannuated employees in the service at the time the system is established.

Further, Mr. Galloway, the member of the Civil Service Commission who was present and submitted the foregoing from the commission's report, had this to say:

Senator COLT. But as a matter of principle, Mr. Galloway, as affording the best retirement bill, do you think that it would be better for the employee to contribute all? In other words, do you not think possibly some burden ought to be thrown upon the Government?

Mr. GALLOWAY. Yes; I think that the Government should bear part of it.

The CHAIRMAN. In justice to the employee?

Mr. GALLOWAY. I think that a man or woman who has given their life, you might say, to a service, not only the Government service, but the service of the Pennsylvania Railroad, for instance, or any institution or establishment, should in a measure be compensated by that establishment, and I think it would be economy for our Government to put up one-half of the money right now to begin a retirement system at once.

In this connection, attention is called to the remarkable statement made by Mr. Paul F. Myers, Chief Clerk of the Treasury Department (p. 69 and 70, hearings):

There are a large number of employees in the Treasury Department, I should say, roughly speaking, about 1,000 employees, who have reached the age where they are no longer rendering first-class service to the Government. Some of them are rendering 90 per cent efficient service, some of them 50 per cent, some of them 25 per cent, and a few practically nothing, and officials of the Government and officials of the Treasury Department, and, I think, that is true of all departments, feel that it is inhumane to drop these people from the rolls for the reason that they would be forced to depend upon public charity for support.

In the Treasury Department there are approximately 32,000 employees in Washington and 25,000 employees in the field service, and I believe that if a measure giving adequate provision for retirement is passed probably 1,000 people will be affected, and that 250 people can probably do the work that this 1,000 people are doing now.

Secretary Baker, in his statement made before the committee said, among other things:

I think that the public service should be put upon a dignified basis so that it would mean not only just compensation during the period of active service, but that it would provide a system of retirement which will enable that same employee who has given full service to the Government to have enough to live upon in a very modest way for the remaining years of his life. Every consideration that I can think of, humani-

tarian, toward the employee, and the good of the service so far as the Government itself is concerned, so far as getting the best type of employees, and getting the best service out of those we have, dictates, I think, the necessity of some sort of retirement provision for the employees in the public departments.

The plan contemplated by the bill is what is known as the partially contributory plan, under which the Government and the employees respectively contribute a portion of the amount required for the purchase of a stated annuity. Whatever may be the ultimate conclusion, it is certain that, at the present time, the straight pension plan, aside from the support it would find among employees, would not have the approval of the general public. It is conceded that it would be a great burden upon the Government. The employees themselves now realize the situation and, in order that there may be relief from present conditions, are ready to contribute a just proportion of the amount which will serve to create an annuity on retirement.

While the wholly contributory plan, under which the employee would, through deductions from his salary, contribute the whole of the amount necessary to create such annuity, may yet have some earnest advocates, it is manifest that, under conditions as they have existed during the last few years and as they are likely to continue with reference to salaries paid by the Government and the expenses of living, this plan would mean a great hardship to the employee and is one which a just Government should not require. Mr. Beach in his testimony, referring to a bill before the Senate at the last session, which provided for a wholly contributory plan, has this to say:

My criticism of this bill is that no person knows the amount which the employees will be required to contribute. It says that the annuity shall be based upon such annuity tables as the Secretary of the Treasury shall direct. Now this bill, or one of similar import, has been pending in the Congress for several years and yet, up to the present time, I have failed to find anything that gives any reliable estimate as to what the amount of contribution will be required of the employees under this plan.

He then gives the estimate of Mr. Herbert D. Brown, Chief of the Bureau of Efficiency, as to the assessments necessary to purchase annuities under the wholly contributory plan. These would be approximately as follows:

Age 20—3 per cent.
Age 25—4 per cent.
Age 30—5 per cent.
Age 35—6½ per cent.
Age 40—8 per cent.

Proceeding, Mr. Beach says:

Without going further into detail, I desire to submit as my personal opinion that an assessment of 8 per cent from any employee in the United States Government at this time would be inequitable. (Pp. 97 and 98 of hearings.)

and such is the opinion of your committee.

The bill considered by your committee is, in all its essential features, the result of an agreement reached by a conference committee representing all the various branches of the classified civil service in the United States. It represents many concessions and compromises. It involves apparent sacrifices on the part of the higher salaried employees who, on the 2½ rate per cent of contribution fixed by the bill, must necessarily pay a larger proportionate amount for the

creation of their annuities than do those with smaller salaries. Of course, they are somewhat abler to do this, but the worthy motive behind the concession they make is their desire to do justice to all. They see the urgent need of a retirement law and, for the sake of the cause, are willing to forego the larger annuities to which their larger contributions might entitle them.

The bill makes the ages of retirement respectively, 65, 62, and 60 years, depending, as will be seen, upon the nature of the employment, with a provision for continuance in the service beyond the retirement age in case the employee is efficient and willing to serve for successive two-year periods upon certification of fitness for service by the head of the department.

Section 2 of the bill defines the classes and rates to be used as a basis for computing annuities, and the annuities are graduated, both in relation to the number of years in the service and to the average annual salary based on compensation during the last 10 years of service, with a maximum and a minimum annuity for each class. No annuity shall exceed $720, or be less than $180 per annum, nor shall any annuity be granted for less than 15 years of service. The following is a copy of the sample table of annuities submitted by Mr. Beach to the committee:

Sample table of annuities.

Average annual salary, pay, or compensation.	Class A, 30 years or more, 60 per cent.	Class B, 27 to 30 years, 54 per cent.	Class C, 24 to 27 years, 48 per cent.	Class D, 21 to 24 years, 42 per cent.	Class F, 18 to 21 years, 36 per cent.	Class F, 15 to 18 years, 30 per cent.
$1,200 or more	$720	$648	$576	$504	$432	$360
$1,100	660	594	528	462	396	330
$1,000	600	540	480	420	360	300
$900	540	486	432	378	324	270
$800	480	432	384	336	288	240
$700	420	378	336	294	252	210
$600 or less	360	324	288	252	216	180

The bill gives the employee the benefit of all periods of service, so that one who has been in the civil service, though not classified, or in the military or naval service, may be credited with the period of such service and will be eligible for assignment under the provisions of section 2 of the bill.

The bill provides for the administration of the act by the Commissioner of Pensions, under the direction of the Secretary of the Interior. It is believed that the Bureau of Pensions is better equipped both in personnel and in the facilities afforded by the Pension Building for the administration of the law than any other bureau of the Government.

One distinctive feature of the bill is the provision made for retirement on account of disability arising from disease or injury. The same period of service of 15 years, before the totally disabled employee can share in the benefits of the act, is required. This provision for the disabled appeals to the committee as being most just, and the same is carefully safeguarded by the medical examinations required on retirement for disability and subsequent thereto.

Such portions of the fund called the "Civil Service Retirement and Disability Fund" as may not be at once required for the payment of the annuities and refunds provided for in the bill are to be invested from time to time by the Secretary of the Treasury in interest-bearing securities of the United States, and the income from such investments is to constitute a part of said fund for the purpose of carrying out the provisions of the act.

Provision is made for those cases where an employee leaves the Government service before reaching the retiring age. He may withdraw the total amount which has been deducted from his salary, with interest compounded at 4 per cent. In case an employee dies before reaching the retirement age, the total amount of deductions, with accrued interest, shall be paid to the legal representatives of such employee. In case an annuitant dies without having received an amount in annuity equal to the deductions from his salary, the excess of the accumulated deductions over the annuity payments shall be paid to his legal representatives.

The foregoing calls attention to the essential features of the bill, and further discussion is deemed unnecessary. The committee, however, submit herewith the estimate of cost submitted at the hearing before the House committee by Mr. Beach of the Pension Bureau.

The estimate shows the contributions from employees for each of the first 10 years of operation under the law and the available surplus for each of said years. It will be seen that in the tenth year, there is yet left a small available surplus and that it will not be until after the expiration of 10 years from the time the act goes into effect that the Government will have to contribute anything toward the payment of annuities; but, after 10 years, Government contributions will begin and will gradually increase until the Government's contribution will be from 60 to 65 per cent and the employees' contribution will be from 35 to 40 per cent of the amount of the annuity. The estimate furnished by Mr. Beach is, however, based on salaries as paid in 1916. Since that date salaries have advanced, and the larger salaries will mean larger contributions. The committee believe that with such larger contributions on the part of employees the time will come in the course of 25 years, or even less, when the proportionate contributions of Government and employees will be practically on a half-and-half basis.

Estimate of cost of retirement under the provisions of the Lehlbach bill (H. R. 3149), assuming there are 300,000 employees in the classified civil service and that 6,400 will retire at once, 1,000 will retire each year during the next five years, and 500 each year during the next four years. Contributions are figured at the rate of 2½ per cent on the average annual salary of $1,138. Refunds are estimated on average contributions.

First year:		
Contributions from 300,000 employees		$8,535,000
Annuities for 6,400 annuitants, at $610 each	$3,904,000	
Refunds to 20,000 employees separated from the service	274,500	
		4,178,500
Surplus		4,356,500

Second year:		
Available surplus		$4,356,500
Contributions		8,535,000
Total		12,891,500
Annuities from 7,400 annuitants, at $610 each	$4,514,000	
Refunds to 20,000 employees separated from the service	549,000	
		5,063,000
Surplus		7,828,500
Third year:		
Available surplus		7,828,500
Contributions		8,535,000
Total		16,363,500
Annuities for 8,400 annuitants, at $610 each	$5,124,000	
Refunds to 20,000 employees separated from the service	823,500	
		5,947,500
Surplus		10,416,000
Fouth year:		
Available surplus		10,416,000
Contributions		8,535,000
Total		18,951,000
Annuities for 9,400 annuitants, at $610 each	$5,734,000	
Refunds to 20,000 employees separated from the service	1,098,000	
		6,832,000
Surplus		12,119,000
Fifth year:		
Available surplus		12,119,000
Contributions		8,535,000
Total		20,654,000
Annuities for 10,400 annuitants, at $610 each	$6,344,000	
Refunds to 20,000 employees separated from the service	1,372,500	
		7,716,500
Surplus		12,937,500
Sixth year:		
Available surplus		12,937,500
Contributions		8,535,000
Total		21,472,500
Annuities for 11,400 annuitants, at $620 each	$7,068,000	
Refunds to 20,000 employees separated from the service	1,647,000	
		8,715,000
Surplus		12,757,500
Seventh year:		
Available surplus		12,757,500
Contributions		8,535,000
Total		21,292,500
Annuities for 11,900 annuitants, at $620 each	$7,378,000	
Refunds to 20,000 employees separated from the service	1,921,500	
		9,299,500
Surplus		11,993,000

Eighth year:		
Available surplus		$11,993,000
Contributions		8,535,000
Total		20,528,000
Annuities for 12,400 annuitants, at $620 each	$7,688,000	
Refunds to 20,000 employees separated from the service	2,196,000	
		9,884,000
Surplus		10,644,000
Ninth year:		
Available surplus		10,644,000
Contributions		8,535,000
Total		19,179,000
Annuities for 12,900 annuitants, at $620 each	$7,998,000	
Refunds to 20,000 employees separated from the service	2,470,500	
		10,468,500
Surplus		8,710,500
Tenth year:		
Available surplus		8,710,500
Contributions		8,535,000
Total		17,245,500
Annuities for 13,400 annuitants, at $620 each	$8,308,000	
Refunds to 20,000 employees separated from the service	2,745,000	
		11,053,500
Surplus		6,192,500

Estimated average annuity for the first year	$610
Estimated average annuity will increase each year until it reaches	$660
Estimated number of employees in the preferential classes between 60 and 65 years of age	3,600
Estimated number of employees in all classes over 65 years of age	9,200
Total eligible for retirement	12,800
Estimated number to retire at once	6,400
Estimated number of annuitants at the end of 10 years	13,400
Estimated maximum number of annuitants on a basis of 300,000 in service	26,000
Aggregate annuities for 26,000 annuitants at $660 each	$17,160,000
Refunds to 20,000 employees separated from the service annually, assuming they have contributed on the average for 10 years	$5,490,000
Total disbursements annually	$22,650,000
Total contributions from 300,000 employees receiving on an average $1,138 annually at $2\frac{1}{2}$ per cent	$8,535,000
Employees' contribution ... per cent	37.7
Government's contribution ... do	62.3